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CHAIRPERSON JAMES:

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Since our last meeting in Atlantic City, the Executive Director, Ms. Nancy Kennedy and the Commission staff have been steadily at work and at this point I'd ask that our Executive Director to provide the Commission with her report.

8

MS. KENNEDY: Thank you, Madam Chair.

9

After the Atlantic City meeting the staff went back to Washington to the table, and with the direction we received from the Chair and the Commissioners, worked to learn from that meeting's shortcomings and to build on its successes.

14

As a result, this agenda allows time for in-depth discussion among commissioners and witnesses. Witnesses have been asked to keep their testimony focused on specific issues, and we have, we hope, provided pertinent material to the Commissioners on the general content of the presentations. We are hopeful that you find this on-site meeting more productive than

1 the first. And I want to thank you all for your
2 contributions and support.

3 We're still hoping for a detailee from the
4 U.S. Government Accounting Office. We've met with
5 their officials three times now. We've put forth a
6 detailed work plan for such a staff economist and we
7 have interviewed one candidate. And we expect to have
8 a decision soon.

9 In addition, we have secured one unpaid
10 intern to help in some administrative aspects of our
11 work. I'd have to ask Martha to give her name. She is
12 a young lady from Turkey, and I can't pronounce her
13 name.

14 MS. ROBERTS: Asli Rubuluk. How's that?

15 MS. KENNEDY: We still do have requests out
16 to many of the area colleges and universities for
17 additional interns.

18 My report at every meeting will contain the
19 reminder about confidentiality. The rules adopted by
20 the Commission charge me as Executive Director with

1 enforcing the confidentiality provision. Everyone has
2 a copy of 18 U.S. Code Section 1905, regarding the
3 disclosure of legally confidential information. And
4 let me respectfully remind everyone of this legal
5 obligation and refer you to Section 10 of our
6 Supplemental Operating Rules.

7 COMMISSIONER BIBLE: In that particular
8 area, since you provide us with a great number of
9 documents, could you stamp those documents that the
10 staff considers to be confidential?

11 MS. KENNEDY: Certainly.

12 COMMISSIONER BIBLE: So that each
13 individual Commissioner does not have to make an
14 independent determination as to what is or is not
15 confidential?

16 MS. KENNEDY: Yes, we usually stamp them
17 draft, but we will stamp them confidential from now on.

18 Thank you.

19 In the area of research, the responses to
20 our RFP were of remarkable quality, as you've

1 discussed. And the Research Subcommittee has gone into
2 merits of the proposals and they will be presented
3 later.

4 You'll find in your briefing books under
5 Tab 5, our current budget. It is tight, but we are
6 currently on budget in the aggregate. And we're still
7 hoping to secure co-funding with other federal agencies
8 which will also be covered in Dr. Kelly's report.

9 We're tightening the belt even more
10 regarding communications and meeting expenses. This
11 means that we find it very expensive to contract with
12 Lexis-Nexus which has, until the first of this month,
13 been used on a pretrial basis. We received an offer of
14 a discounted rate through the year, at the rate we are
15 using it they projected that we would have to pay
16 between \$3,500 and \$4,000 a month for next year based,
17 as I say, on our current level of usage. At this rate,
18 we will be disseminating clips to Commissioners on less
19 regular basis, but we are going to, at least for the

1 moment, contract Lexis on a smaller scale so we can do
2 our literature search with the research.

3 We've already conducted advance work on the
4 logistics for our next meeting scheduled for May 20th
5 and 21st, in Chicago. And we have initiated
6 preliminary research on the perspective issue areas.
7 You saw an outline of possible subjects for the Chicago
8 meeting under Tab 7.

9 We would like to discuss these four areas
10 that from a staff perspective we do not feel that we
11 have the physical resources to properly do the research
12 and plan a meeting for four different areas. And we
13 would like to have your guidance on this.

14 And I'd like to--

15 CHAIRPERSON JAMES: When you say areas, you
16 mean the four different subject areas, issues?

17 MS. KENNEDY: Yes. And I'd like to open it
18 for discussion of that at this time.

1 COMMISSIONER BIBLE: What sort of research
2 projects are being conducted by the staff at this
3 point?

4 MS. KENNEDY: Not research projects, but
5 we, going out and doing advanced work and talking to
6 people within the different areas that are under
7 consideration to be issues.

8 COMMISSIONER BIBLE: Are staff members then
9 assigned projects, like Doug apparently was assigned a
10 project to compile information on the lotteries?

11 MS. KENNEDY: Yes.

12 COMMISSIONER BIBLE: So a staff member is
13 doing something on the Internet and we're also doing
14 something on parimutuel wagering?

15 MS. KENNEDY: Martha has been working on
16 Internet. And she did the advance to Chicago and I've
17 asked her to come to the table to answer your specific
18 questions. Allison Flatt is doing the research on the
19 Native American gaming issues.

1 COMMISSIONER BIBLE: Do we have other
2 research projects being undertaken at this point, or is
3 that it?

4 CHAIRPERSON JAMES: Let me clarify
5 something. Because I think there's a distinction
6 between research projects and background briefing
7 materials for the Commission. And I think that Nancy
8 is talking about briefing materials as opposed to
9 research. Is that correct?

10 MS. KENNEDY: That's correct.

11 CHAIRPERSON JAMES: So in terms of research
12 projects, no.

13 COMMISSIONER BIBLE: There's nothing being
14 done independently by the staff, it's all being done by
15 the Research Committee.

16 CHAIRPERSON JAMES: It's background
17 research, right.

18 COMMISSIONER BIBLE: So you're just
19 providing background briefing papers on a variety of
20 issues.

1 CHAIRPERSON JAMES: Correct.

2 COMMISSIONER LOESCHER: Madam Chairman, do
3 you know, we've spoke of this before in earlier
4 meetings, but I find it really helpful to have a panel
5 like we had today on, like on the lottery. And now I
6 have a little bit more information with which to
7 consider research projects or further hearings or
8 whatever.

9 And you know, for instance in Chicago, if
10 you're looking at this Tab 7 and we have several
11 subjects, one of them is Internet gambling. And one of
12 the things that I thought, you know that we could do is
13 to have a sort of prehearing where we could bring four
14 or five experts in America to the table and just a
15 briefing from them on what they see with Internet
16 gambling. Because quite frankly, I don't know anything
17 about it and the literature is unbelievable if you
18 start looking into it. But somebody, a group, a panel
19 like that could distill the high points that we should
20 be looking at in a hearing hour, two hour hearing. But

1 these other subjects that we have for Chicago sort of
2 bear the same, kind of a preliminary kind of panel of
3 experts to help get us focused.

4 So I don't know what kind of work it takes
5 for staff to identify three, four or five people in
6 America who have the expertise and then invite them to
7 the hearing or the meeting to help this body look at
8 these issues. But it seemed to me that that's not an
9 undoable effort.

10 So, I don't know, Madam Chairman, I would
11 like to see some of these issues get a prehearing,
12 prebriefing at some point in the next six months.

13 CHAIRPERSON JAMES: I think the question
14 that, and I don't mean to speak for Nancy, but the
15 question that she's asking of us as a Commission is
16 that when we go to Chicago there are four very
17 substantive issues. And she's just looking for some
18 guidance, are there any priorities, do we want to
19 prioritize them, do we want to do them all equally, do
20 you want to give them any guidance as they're beginning

1 to put together that particular visit. Or do you just
2 want the staff to give it their best shot and send it
3 out to you in draft form?

4 We are looking at, as the Commission
5 discussed last time, the Internet, we are looking at
6 parimutuel or off-track betting, we are looking at
7 securities and we are looking at riverboat gambling.
8 And those were the four issues that the Commission
9 identified last time as issues that could potentially
10 be discussed in Chicago.

11 And so now the staff is coming back and
12 asking for a little bit of guidance. Would you like to
13 narrow that down, or would you like to keep it--

14 COMMISSIONER MOORE: --Doug's handout, I
15 mean, mailed out last week on lotteries, that he
16 presented this morning to us. I found this mailed out
17 to us, the research or whatever he had done on that,
18 very informative to me, and had me ready this morning
19 to listen to him and know what he was talking about.
20 Could we do that, like on the Internet?

1 CHAIRPERSON JAMES: Yes, that's our
2 intention to make sure that we have some sort of
3 briefing or background before each discussion. But I
4 think what I hear the staff saying is, help. Could we
5 narrow it a little bit, and they need to know from us
6 what are priorities are. And so I'd like to open that
7 up for discussion from the Commissioners at this point.

8 COMMISSIONER DOBSON: Madam Chairman, my
9 statement is in the book, but I'd just like to call
10 attention to it again, making the case for riverboat
11 gambling as a subject for inquiry. I don't need to
12 read it, but it's stated there.

13 CHAIRPERSON JAMES: Thank you.

14 COMMISSIONER McCARTHY: Would you mind
15 mentioning, I've got parimutuel, riverboat gambling,
16 Internet, and what are the other two, please?

17 CHAIRPERSON JAMES: Securities,
18 parimutuels/OTB. And that's behind Tab 7, I believe in
19 your books. And each subject is divided by a green
20 paper.

1 Now we can direct the staff to come back
2 with a recommendation, but if there is any guidance
3 that you'd like to give, this is the time to do it.

4 COMMISSIONER BIBLE: Well some of these
5 issues probably have fairly extensive briefing type
6 documents prepared by other parties in our staff. I
7 would guess the Internet has quite a bit of material
8 that you could compile and just simply send it to us,
9 and you can read it fairly quickly. Parimutuel,
10 probably not, just because of the nature of the
11 activity, it's a fairly traditional activity. I don't
12 think there's anything that has been compiled recently
13 on it that would be concise. But I think you just go
14 back and take a look at the literature that's available
15 and then supplement in terms of your briefing documents
16 were you think it's appropriate. I think you're going
17 to have to make those decisions.

18 CHAIRPERSON JAMES: And I'm going to ask
19 Commissioners to really speak loudly and right into the

1 mike, because I'm having a hard time, I know they will
2 out there.

3 MS. KENNEDY: Commissioner Bible, my
4 concern from a staff perspective is that we are here in
5 Boston with two issues on the table which are consuming
6 our two days. I'm not sure that we can do justice to
7 four issues at one site visit. In looking at the
8 issues, the Internet could be looked at anywhere. It
9 was brought up early in a Commission meeting as
10 possibly doing it in Chicago, but you could do the
11 Internet--

12 CHAIRPERSON JAMES: Could you do it over
13 the Internet? That was not a joke.

14 MS. KENNEDY: As long as we tell the Press
15 so they can all tune in.

16 The issue of the parimutuel over the OTB
17 could also be handled on our trip in the west. I think
18 the two issues that lend themselves most precisely to
19 Chicago, should you decide to do it, is the securities
20 issue and the other would be the casino boat gambling

1 from the local impact. Which is what Dr. Dobson was
2 getting to in proposing it there, as opposed to Biloxi
3 or New Orleans, where you have people coming from all
4 over the country, whereas in the midwest it's mostly
5 people in the local area who use the facility.

6 CHAIRPERSON JAMES: Commissioner Wilhelm.

7 COMMISSIONER WILHELM: I want to point out
8 with respect to parimutuels that one of the reasons
9 Commissioner Lanni suggested Southern California at the
10 particular time frame that he suggested it
11 specifically, was because there's an opportunity to
12 visit the parimutuel issue there at that time. And
13 that might be worth considering in terms of the agenda
14 crunch that you're talking about.

15 I also would, while I completely agree with
16 Commissioner Dobson that we need to look at not just
17 riverboat gambling but, I think the focus of his
18 concern as I understood it was that type of gambling
19 which draws primarily from the immediate local
20 community. That is readily available in both

1 Mississippi and Louisiana. It is also true that there
2 are some other variations of casino gambling in
3 Mississippi but that kind of examination is readily
4 available in both Mississippi and Louisiana.

5 So I, and my own view is we ought to look
6 at parimutuels when we go to California and we ought to
7 look at riverboats and related kinds of gambling, that
8 I would call convenience in Louisiana, which has at
9 least two varieties of it, truck stop video play and
10 locally oriented riverboats. And that we ought to look
11 at it in convenience gambling in Las Vegas too, you
12 know, slot machines in supermarkets and 7-Elevens for
13 example, which is something that troubles me
14 personally.

15 And I would make those suggestions with
16 respect to trying to deal with the agenda crunch in
17 Chicago. I would also, when we do the Internet, I
18 would like to urge you to invite, and this is indicated
19 in some of the notes that you've provided us in the
20 binder, to specifically invite the Attorneys General of

1 Missouri, Wisconsin and Minnesota, as well as Senator
2 Kyl to come and talk to us.

3 CHAIRPERSON JAMES: So noted.

4 Any other guidance for the staff at this
5 point.

6 COMMISSIONER McCARTHY: So that I may
7 understand what my colleague Mr. Wilhelm was proposing,
8 we limit this down to now, in the order of one, two,
9 three, what were the priorities you want to see as
10 given in Chicago, John?

11 COMMISSIONER WILHELM: I was suggesting
12 securities. Something about which I know absolutely
13 nothing and never intend to learn. But of one which
14 Commissioner Leone can try to educate. No seriously, I
15 was suggesting securities and the Internet. And to
16 whatever extent we can add on some riverboats, fine.

17 I've been discouraged by the apparent view
18 on the part of some of us that we ought not ever go
19 outside the room. And I will assure you that if you go
20 to Chicago, you've got to go a ways to find any

1 riverboats. They're not in Chicago. So if people are
2 up for road trips, which they seem to have a reluctance
3 to be, maybe we can fit them in as number three. But
4 since we can see various kinds of convenience gambling
5 including but not limited to riverboats in both Las
6 Vegas and Louisiana, it seems to me we can do that
7 there too.

8 So I would say securities, Internet and to
9 the extent that we can fit it in riverboats. And I
10 would recommend parimutuels be saved for California.

11 COMMISSIONER BIBLE: And I would concur
12 with that, but rank them a little bit differently. It
13 would seem to me you'd want to do Internet, riverboat
14 and securities. Or riverboats, Internet and
15 securities.

16 COMMISSIONER LANNI: Yes. I think John is
17 suggesting Internet and securities as one and two,
18 correct?

19 COMMISSIONER BIBLE: I believe that was
20 John's suggestion.

1 COMMISSIONER WILHELM: Yes, let's do them
2 both there, and then whatever else we have time for,
3 basically, was what I was suggesting.

4 CHAIRPERSON JAMES: Commissioner Leone.

5 COMMISSIONER LEONE: Yes, let me try to
6 clarify, if I've been pressing this securities issue,
7 what I have in mind and why I think it would be useful.

8 I have, I recognize that the mandate of the
9 Commission doesn't technically cover what's called the
10 securities industry. And I also recognize that what in
11 the securities business is called speculation is not
12 considered the same as gambling and has a noble
13 economic purpose that it serves. And I also recognize
14 that the securities industry contributes more to
15 politics than even the gambling industry. So I have no
16 illusions about our incorporating any of the issues
17 about speculation and securities into our agenda.

18 What I do think would be useful for us is
19 the securities industry by and large is very proud of
20 the job it does. The soft regulatory organizations,

1 the exchanges, the two large and there are several
2 smaller federal agencies, the SEC and the CFTC, have
3 elaborate structures, there's an immense federal code
4 that covers this.

5 There are, within the large consumer
6 oriented firms like Merrill Lynch and D.L.J. and other
7 ones, internal rules that effect who can do what and
8 what kind of customers can do other things. There's a
9 great deal of information about disclosure. And I
10 think that are, I think this is as close as we can come
11 on the national level to models that might provide some
12 useful insights into regulation. Obviously at the
13 state level there are some obvious places we're
14 visiting, New Jersey, Nevada, where people claim they
15 have great models for regulatory issues.

16 So I thought that we might devote part of
17 one session to presentations by people who were both
18 scholars and regulators and maybe even some industry
19 people who if properly assured might not feel they'd be
20 tainted by appearing before a commission with our name

1 to come and teach us what we, we can draw our own
2 conclusions down the road about whether or not any that
3 information is useful.

4 CHAIRPERSON JAMES: At first blush they
5 want nothing to do with us.

6 COMMISSIONER LEONE: That's true. That
7 doesn't surprise me. But it is interesting in a
8 variety of ways. And obviously in commodities trading
9 the most reliable estimates are that 85 percent of the
10 people who speculate, who buy and sell commodities
11 contracts lose all the money they invest. But that is
12 the most risky of the conventional securities
13 transactions.

14 So I just thought Chicago, having been
15 president of a futures exchange, so I know something
16 about this business, we might collect, there might be
17 some people. And it also is easy for people to come
18 out from Washington and New York to Chicago, somewhat
19 easier, it's a short flight. That's my main argument.
20 It doesn't obviously have to be in Chicago. I think

1 we've got, you know Chicago is an anomalous place, for
2 the riverboat gambling a place like Iowa might even be
3 better, more clearly nobody quite understood what was
4 going on when they started riverboat gambling and some
5 other states.

6 So I don't have a strong preference about
7 where we do what. I do agree the Internet has to be
8 high on our list. But I do think we ought to be moving
9 to a couple of these issues where we have a lot to
10 learn, like the Internet, like securities business.

11 CHAIRPERSON JAMES: Any other guidance? My
12 suggestion will be at this point that we take this
13 discussion that we've had here back to the staff and
14 let them come to us with a recommendation for how we
15 could best use our time in Chicago based on what they
16 know, or the restraints that they're operating under.

17 COMMISSIONER BIBLE: It sounds to me like
18 parimutuel wagering is essentially off the agenda for
19 Chicago.

1 CHAIRPERSON JAMES: What I'm hearing is
2 that we will have the opportunity to address that
3 perhaps in our California visit.

4 Anything else on this subject?

5 Okay. Nancy -- yes?

6 COMMISSIONER DOBSON: Madam Chairwoman, may
7 I just make one more statement in defense of studying
8 riverboat gambling?

9 CHAIRPERSON JAMES: Absolutely.

10 COMMISSIONER DOBSON: I'm no expert on
11 this, and so this is just my understanding, some
12 Commissioners may want to contradict me, but that the
13 riverboat gambling in Illinois is different from Biloxi
14 and other places. That it does draw primarily on the
15 local population. And that other states are
16 considering instituting that same kind of operation,
17 which will be instructional for them, apart from how
18 it's done in some of the larger gambling centers that
19 draw from people outside. Also the fact that it is in

1 fairly low income areas. And so, for what it's worth,
2 I still think we ought to do that.

3 CHAIRPERSON JAMES: Thank you.

4 Nancy, do you want to continue with your
5 report.

6 MS. KENNEDY: Yes. As we discussed at the
7 last meeting the staff attempts to do at least some
8 preliminary thinking a meeting ahead or two meetings
9 ahead, and at Tab 8, you have our memo on the meeting
10 for July in California and Arizona. I would appreciate
11 your consideration of issues for that meeting. And as
12 I'm hearing we do have parimutuels on the list but I
13 need you to think about the issues for California,
14 because I will be getting back to you shortly after I
15 get back to you on Chicago, to try to identify issues
16 for that meeting.

17 But while I have you, also I'd like to ask,
18 we have, in looking into the California/Tempe meeting,
19 find that we could spend one day in San Diego and take
20 a 6:30 flight or 7:30 flight and it's like an hour

1 flight into Phoenix. And then we could stay over night
2 and do the Native American gaming meetings the next day
3 there. That issue I'd like to have some serious
4 discussion on because of the fact that securing hotel
5 space is very, very hard. As the Chair indicated this
6 morning we had to rely upon the help of the officials
7 here in Boston to get us this meeting space.

8 COMMISSIONER McCARTHY: Madam Chairman?

9 CHAIRPERSON JAMES: Yes.

10 COMMISSIONER McCARTHY: I move we follow
11 the suggestion just made that we take planes and be in
12 Tempe and plan to stay there that night so that we can
13 have an earlier start on the second day of that
14 meeting, because we have a long complex agenda on the
15 Indian gambling.

16 CHAIRPERSON JAMES: With that direction,
17 Nancy I'm going to ask that you go ahead and work out
18 that with the two issues that we have and get that back
19 to the Commission in draft form for discussion.

20 Anything else?

1 MS. KENNEDY: Yes. As always, the staff
2 will continue to work hard to respond properly and
3 thoroughly to the requests for information from both
4 Commissioners and the public. And we welcome any
5 recommendations that you might have to make us more
6 responsive in that area.

7 And I'm pleased to tell you since our last
8 meeting, when the Website was approved, that we are up
9 and running.

10 CHAIRPERSON JAMES: Do you want to give
11 that address?

12 MS. KENNEDY: Yes. We're at WWW.NGISC.GOV
13 and you can pull us up on the Internet now. And we
14 find it very exciting to be there. We've gotten a lot
15 of e-mail and we've already been hot linked to some
16 other sites.

17 I think that just about covers my report.
18 I thank you for your consideration of our work plan and
19 we will forge ahead. If you have any other questions?

1 CHAIRPERSON JAMES: Are there any other
2 questions for the Executive Director?
3 Thank you, Nancy.